Chapter 6

Urbanization and Rural-Urban Migration (Theory and Policy)

Problems and Policies: Domestic
1 The Migration and Urbanization Dilemma

- As a pattern of development, the more developed the economy, the more urbanized
- But many argue developing countries are often excessively urbanized or too-rapidly urbanizing
- This combination suggests the migration and urbanization dilemma
- Urbanization: Trends and Projections

- Urban pop have more capita income
- Proportion of urban pop is increasing everywhere
  - N America: > 60% in 1950 to >80% in 2050
  - Oceania: ~40% in 1950 to ~80% in 2050
  - Europe: > 50% in 1950 to >70% in 2050
  - Africa: > 10% in 1950 to >40% in 2050
  - Asia: > 10% in 1950 to ~50% in 2050
Megacities: Cities with Ten Million or More Inhabitants

Population in millions
- 1975
- 2009
- 2025 (projected)

Estimated and projected urban and rural population of the more and less developed regions, 1950-2050

Annual Growth of Urban and Slum Populations, 1990-2001

2 The Role of Cities

• Agglomeration economies: Urbanization economies, localization (industry or sector) economies
• Saving on firm-to-firm, firm-to-consumer transportation
• Firms locating near workers with skills they need, and vice versa
• Firms benefit from infrastructure
• Firms benefit from knowledge spillovers in their and related industries
• (Also: consumers may benefit from urban amenities)

Industrial Districts and Clustering

• Quality of clusters, or Industrial Districts, is a key to sectorial efficiency
• Unfortunately a majority of developing countries have made only limited progress
• China: a country that has made huge strides in generating industrial districts over the last decade
Urbanization Costs, and Efficient Urban Scale

• But, cities also entail “congestion costs”

• Economically efficient urban scale (from point of view of productive efficiency) found were average costs for industries are lowest

• Generally, differing efficient scales for different industrial specializations imply different city sizes

• More extensive (expensive) capital, infrastructure required in urban areas

• Smaller cities may be expected in labor-intensive developing countries
3 The Urban Giantism Problem

• There may be general urban bias
• Cities are capital intensive: large cities should be in developed countries
• But urbanization in developing countries has taken place at unexpectedly rapid pace
• Huge informal sectors in shantytowns. Many workers outside formal sector
• Much urban growth is in mid-size cities, but urban bias remains a serious issue in many developing countries

• First-City Bias favoring largest city
• Causes of Urban Giantism:
  – Import substitution industrialization: less in’t trade, concentration is in a single city largely to avoid transportation costs
  – “Bread and circuses” to prevent unrest (evidence: stable democracies vs unstable dictatorships)
  – Hub and spoke transport system (rather than web) makes transport costs high for small cities
  – Compounding effect of locating the national capital in the largest city
4 The Urban Informal Sector

• Why promote the urban informal sector?
  – Makes surplus despite hostile environment
  – Creating jobs due to low capital intensivity
  – Access to (informal) training, and apprenticeships
  – Creates D for less- or un-skilled workers
  – Uses appropriate technologies, local resources
  – Recycling of waste materials
  – More benefits to poor, especially women who are concentrated in informal sectors

• Policies for the Urban Informal Sector
• Women in the Informal Sector
Importance of Informal Employment in Selected Cities

5 Migration and Development

- Rural-to-urban migration was viewed positively until recently.
- The current view is that this migration is greater than the urban areas’ abilities to
  - Create jobs
  - Provide social services

Components of Migration in Selected Countries

6 Toward an Economic Theory of Rural-Urban Migration

• A Verbal Description of the Todaro Model
  – Migration is a rational decision
  – The decision depends on expected rather than actual wage differentials
  – The probability of obtaining a city job is inversely related to the urban unemployment rate
  – High rates of migration are outcomes of rural-urban imbalances

• A Diagrammatic Presentation is below
Schema for analyzing the rural-to-urban migration
The Harris-Todaro Migration Model
We denote

\[ W_A \] - agricultural income after migration,

\[ L_M \] - employment in formal (modern) manufacture sector with \( \bar{\omega}_M \) min wage rate

\[ L_{US} \] is total urban labor pool

\( \bar{\omega}_M \) is the urban minimum wage

\[
\text{Urban expected income} = \frac{L_M}{L_{US}} (\bar{\omega}_M)
\]

As migration occurs, \( w_A \) and urban expected income have to converge to cause workers to be indifferent between job locations.

\[
W_A = \frac{L_M}{L_{US}} (\bar{\omega}_M)
\]
Five Policy Implications

1) Urban bias (more jobs in urban than in rural) leads to more rural-urban migration
2) Imbalances in expected income opportunities is crucial
3) Indiscriminate educational expansion fosters increased migration and unemployment
4) Wage subsidies and scarcity factor pricing can be counterproductive
5) Programs of integrated rural development should be encouraged

Conclusions: A Comprehensive Migration and Employment Strategy

• Create a urban-rural balance
• Expand small-scale, labor intensive industries
• Eliminate factor price distortions
• Choose appropriate labor-intensive technologies of production
• Modify the linkage between education and employment
• Reduce population growth
• Decentralize authority to cities and neighborhoods
Summary and Conclusions: A Comprehensive Migration and Employment Strategy

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Concepts for Review

- Agglomeration economies
- Congestion
- Efficiency wage
- Harris-Todaro model
- Induced migration
- Informal sector
- Labor turnover
- Localization economies
- Present value
- Rural-urban migration
- Social capital
- Todaro migration model
- Urban bias
- Urbanization economies
- Wage subsidy